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Attached are two copies of the report that you requested on the impact of the October War on Syria's economy. [redacted]

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Attachments (2)
as stated

Distribution:

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Syria: Economic Impact of the October War, Progress in Reconstruction, and Capabilities to Resume Hostilities

Economic Impact

Syria was completing its third year of rapid economic growth when it embarked on war with Israel in October 1973. The ensuing damage to Syrian facilities and interruptions in output reversed the upward course of Syria's national output. It is estimated that Gross Domestic Product fell about 8% to about $1.9 billion in 1973. A poor agricultural crop also contributed to the estimated downturn in the economy in 1973.

Syria was the only belligerent that sustained major economic damage during the war. Attacks by Israeli aircraft on industrial facilities and infrastructure (roads, railroads, and communications) caused direct losses of an estimated $225 million. This included damage to the country's sole petroleum refinery, destruction of about 37% of its petroleum storage facilities, and elimination of roughly half of the national electrical power capacity. Transportation facilities were damaged as were several small factories.

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The indirect economic costs of the war during the last quarter of 1973 probably amounted to at least $250 million.

These losses stem from interruptions in industrial production, curtailed export of domestic crude oil, lowered tourism, and elimination of oil fees because of the suspension of Iraqi deliveries through the Syrian oil pipeline. Conceivably the cost of importing additional oil products could have added another $70 million, but it is thought that other Arab countries absorbed most of that expense.

The normally adverse effects of the war on Syria's balance of payments were more than offset by heavy inflows of Arab financial aid. We estimate that roughly $500 million of the $1.6 billion in aid pledged to Syria was forwarded during or immediately after the October war. As a result of this aid, Syria's foreign exchange reserves at the end of 1973 were probably well in excess of the $260 million on hand at the outset of the war.

The populace experienced some inconveniences in supply but no serious commodity shortages during the short conflict. Food supplies in general were adequate and food grains in particular were plentiful. Immediately prior to the war, Syria had harvested its wheat and barley crops and had large carry-over stocks of grain from its bountiful 1972 harvest. The rural elements of the population fared better than the city dwellers who had to contend with supply difficulties and periodic power shortages. The influx of refugees, moreover, probably aggravated the supply/distribution problems in the cities. In addition, most of the 7,000 or more workers affected by damage to industrial facilities were located in or near the major cities. Such hardships as did develop, however, appear to have been willingly assumed by Syria's populace in the interest of carrying out the struggle against Israel.

Progress and Outlook for Reconstruction

Syria is making headway in restoring the trade and industrial activities which were primarily affected by wartime damages. The following description of progress and problems in the individual sectors suggest that at least a year or more will be required to complete the task of reconstruction.

At present, all of Syria's major ports are back in operation permitting a near-normal flow of exports and imports. The main terminal for imports at Latakia is fully operational. Iraqi oil is being exported at normal levels of 700,000 b/d from Banais contributing about $105 million of the $160 million in oil transit fees that Syria will earn this year. (The remaining $55 million are fees collected on Iraqi and Saudi oil that transits Syria to ports in Lebanon.) The remaining damage to 73% of the oil storage facilities at the port of Tartus probably limits exports of Syrian oil to only half the normal 100,000 b/d. In a period of high oil prices, possibly $10 or more per barrel, Syria is losing roughly $180 million annually. Nevertheless, its oil earnings this year should be more than double the normal annual amount.

The Homs refinery is back in limited operation, following repairs by Syrian and Czechoslovakian technicians. Output includes most of the fuels needed by the civilian and military sectors with the exception of high octane gas and some chemical intermediates. Additional refineries are planned and construction of one or more conceivably could get underway by the end of the year. Agreements reportedly have been signed with Rumania and Czechoslovakia and negotiations are underway with several Western countries for refinery construction.

Storage of petroleum products and crude oil are probably still below pre-war levels, as about one-fifth of the tankage capacity is inoperable due to war damage. Repairs by French and Czechoslovakian contractors probably will take another six months or so. While the reduced capacity will have some effect on civilian and industrial supply, it probably does not affect the military which has its own strategic storage.

The need to restore the heavily-damaged electical power system is one of the most pressing economic problems. At present, the supply of power is only about three-fourths its pre-war level forcing industry to operate at reduced levels. The country's largest power plant, located at Homs, is operating at about one-fourth capacity due to remaining war damage. The large Damascus power plant and a smaller plant at the Homs refinery are totally destroyed. Meanwhile Syria is attempting to cope with difficulties by importing portable power generators and expanding power supply from Lebanon. Its most immediate relief, however, will come from the turbo power facility at the Euphrates Dam which is scheduled to be completed sometime this year. When completed, this plant will double the existing capacity of about 277,500 kw.

Near Term Economic Outlook

Syria conceivably could regain some its economic momentum and achieve slight growth in GDP in 1974. Agriculture, which accounts for one-fifth of GDP, is expected to be especially good, possibly rivaling the record 1972 output. If so, gains in this sector would easily overshadow the anticipated fall in industrial output. Trade and transportation should improve with the opening of all ports and heavy demand from both consumers and the public sector.

Inflation and unemployment will continue to pose serious problems, but the government has the means for coping with both. With ample funds at its disposal, Damascus could easily expand its imports of basic consumer goods. This, coupled with a good harvest, should ease the pressure on consumer prices. The rate of unemployment probably is well above 7% with the wartime influx of refugees and the addition of an estimated 7,000 workers displaced by wartime damage to plants. At least some of these unemployed will find work in the government-sponsored reconstruction programs.

Capabilities to Resume Hostilities

Syria's economic interests would seem to dictate strongly against the resumption of hostilities. The economy is just beginning to get back to normal and is not prepared for additional losses to its weakened electrical power, petroleum, and industrial sectors.

The country's food supply situation is nowhere as stable as it was at the outset of the October war. Stocks of wheat are believed to have been drawn down considerably in anticipation of this year's record harvest. That crop cannot be harvested before July. Meanwhile imports of grain are estimated at only about one-fourth of the amount planned for 1974. Meat and other commodities also are believed to be in short supply at this time, although imports are on order.

The adequacy of petroleum supplies is a further uncertainty. In the event of war, Israel almost certainly would repeat its attack on the country's sole refinery at Homs and probably would make a more concerted effort to deny supply of products from neighboring countries. Attacks on the Iraqi refineries, supply lines from Lebanon and Iraq, and terminals in Syria are a possibility.

The fragile electrical industry also would be an early casualty of Israeli attack.

The economic gains from recovering the Golan Heights and other Israeli occupied territories are at best minimal. These lands have limited agricultural value, previously given over to subsistence farming. Even the Israelis found that the investment costs in agricultural settlements far outweighed the small $2 million annually worth of output. The city of Al Qunaytirah is of symbolic importance only, as it presently is a virtual ghost town with little or no economic importance. Probably the one advantage that the area would provide Syria is that it would permit the return of an estimated 170,000 refugees. But there is no assurance that they would find gainful employment and not require financial handouts from Damascus.

Syria would serve its economic interests by resolving its issues with Israel through peaceful rather than military means. During the negotiating phases, Syria could complete its reconstruction, reinstitute its developmental programs, and attain modest growth in GDP. A peaceful solution of issues would free up additional resources for development. At present, defense takes about $400 million or roughly 23% of government spending. Private and foreign investment would take a more active role in Syrian development were the threat of war reduced. It also seems likely that the moderate Arab states, such as Saudi Arabia, would be willing to continue aiding Syria, in part to reduce the role of Soviet influence in Syria's development. An expanding Syrian economy also would provide markets for some of the goods currently being planned for production by Saudi Arabia.

Syria: Economic Data

Area	72,000 sq. mi. (500 sq. miles Israeli occupied)
Population	6,990,000

Gross Domestic Product (GDP)

1972	est.	$2.1 billion
1973	est.	1.9 billion (rounded)

GDP Growth Rate

1972-73	-8.0%
1970-72	12.6%/yr.
1965-70	5.0%/yr.

Composition of GDP

Economic Losses October war:

Direct damage	$225 million
Petroleum facilities	
Electric power	
Other industry	
Industrial losses	$250 million
Transit fees	
Export earnings	
Output	

Arab Financial Assistance

Pledged	$1.6 billion
Given	est. 0.5 billion

Composition of GDP

	(Percent)
Agriculture	20
Mining and Manufacturing	19
Construction	3
Transportation and Communication	14
Trade	17
Government	13
Other Services	14
Total	100

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